RECORD AND BRIEFS

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No. 16–712

In the Supreme Court of the United States

OIL STATES ENERGY SERVICES, LLC,
Petitioner,

v.

GREENE'S ENERGY GROUP, LLC, *et al.*,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF THE CATO INSTITUTE AND AMERICAN CONSERVATIVE UNION FOUNDATION AS *AMICI CURIAE* SUPPORTING PETITIONER

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QUESTION PRESENTED

Whether *inter partes* review, an internal process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents, violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury?

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INTEREST OF *AMICI CURIAE*[1]

The **Cato Institute** is a nonpartisan public-policy research foundation established in 1977 and dedicated to advancing the principles of individual liberty, free markets, and limited government. Cato's Center for Constitutional Studies helps restore the principles of limited constitutional government that are the foundation of liberty. Toward those ends, Cato publishes books and studies, conducts conferences, and produces the annual *Cato Supreme Court Review*.

The **American Conservative Union Foundation** ("ACUF") is a public-policy research foundation established in 1983. ACUF seeks to simplify complex issues and illustrate their practical relevance to all Americans, demonstrating that conservative ideas and principles work better to solve the problems facing the United States. ACUF's mission is to educate citizens about conservative principles. Toward those ends, ACUF has built several policy centers that publish writings by respected thought leaders and organizes conferences where conservative ideas are debated and promoted.

Amici have no direct stake in the outcome of the present litigation. Instead, *amici* believe that private property, in all its forms, is the bedrock for human flourishing. This understanding of the importance of private property leads *amici* to a simple proposition: that litigants should be able to vindicate their federal property rights in properly constituted federal courts.

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[1] Rule 37 statement: Petitioner and Respondent Greene's Energy Group, LLC have filed a general consent for all *amicus* briefs. Respondent United States gave written consent to this filing. No person or entity other than *amici* and their counsel authored this brief in whole or in part, or funded its preparation or submission.

Furthermore, *amici* hold that our tripartite system of government is the greatest bulwark for liberty and that aggrandizing one of its pillars at the expense of another will result in the erosion of citizens' abilities to protect against overbearing government.

Although *amici*-affiliated scholars may disagree on certain legal and political issues—including the proper scope of patent protection—*amici* have joined together to urge the Court to reverse the decision below. Regardless of which inventions are granted patents and the strength of those patents, disputes over these rights must be adjudicated by Article III courts.

SUMMARY OF ARGUMENT

In 2011, citing concerns about the high cost of patent litigation and the supposed low quality of patents, Congress, instead of providing additional funds to the Patent Office to improve its work, created a mechanism for administrative patent cancellation. *See* America Invents Act ("AIA"), Pub. L. No. 112-29, 125 Stat. 284 (2011), 35 U.S.C. § 100, *et seq*. The AIA's post-issuance review system is fundamentally unfair to litigants and has severely undermined and degraded property rights in patents. Further, these procedures have deprived the federal courts of their power and authority to adjudicate federal rights and to enforce their own judgments.

In upholding these administrative cancellation proceedings, the Federal Circuit ignored the historical understanding of the nature of patent rights, ignored a long line of precedents that have consistently held that only federal courts can abrogate an issued patent, and badly misapplied the doctrine of "public rights." The decision below must not be allowed to stand.

Instead, this Court should reaffirm that patents for inventions are—and have always been treated as—no different than patents in land and though both derive from federal statutes, neither are "public rights" susceptible to adjudication in non-Article III courts. By looking closely at the post-issuance proceedings, the Court will be able to appreciate that they are unfair to the litigants and wreak havoc on the delicate balance of powers between the three branches of government. Nor are these defects rectified by the ability to appeal the Patent Office's decisions to the federal courts, for the avenues of appeal are flawed and inadequate.

ARGUMENT

I. Patents Are Property and Must Be Treated as Such

From the early days of the Republic there has been an unbroken line of cases reaffirming, time and again, that patents for inventions are private property and stand on the same constitutional footing as land. This principle has been reaffirmed just three terms ago in *Horne v. U. S. Dep't of Agriculture*, 133 S. Ct. 2053 (2015). This basic proposition also finds unequivocal support in the Patent Act. *See* 35 U.S.C. § 261. The debasement of patent rights inherent in the system that forces patentees to continuously defend their private property in front of government bureaucrats finds support neither in historical understanding of patent rights nor the precedents of this Court.

A. Patents Have Historically Been Understood to Be the Patent Holder's Private Property

Since the Patent Act of 1790, ch. 7, 1 Stat. 109, Congress has experimented with a variety of

procedures for the granting of patents. Yet, through all of the changes in patent law, one principle stood constant: a patent, once granted, was private property of the inventor on par with land. *Horne*, 135 S. Ct. at 2427; *McCormick Harvesting Mach. Co. v. C. Aultman & Co.*, 169 U.S. 606, 609 (1898); *United States v. Palmer*, 128 U.S. 262, 271 (1888); *United States v. Am. Bell Tel. Co.*, 128 U.S. 315, 368 (1888); *James v. Campbell*, 104 U.S. 356, 358 (1882); *Providence Rubber Co. v. Goodyear*, 76 U.S. 788, 798 (1869); *Seymour v. McCormick*, 60 U.S. 96, 102 (1856) (all concluding that patents for inventions and patents for land stand on equal footing). As early as 1813, Chief Justice Marshall, riding circuit, explained that a patent is not mere favor, but a method to secure and perfect an antecedent right to property, a right that is inherent in the Constitution itself:

> The constitution and law, taken together, give to the inventor, from the moment of invention, an inchoate property therein, which is completed by suing out a patent. This inchoate right is exclusive. It can be invaded or impaired by no person. No person can, without the consent of the inventor, acquire a property in the invention. . . . [T]his inchoate and indefeasible property in the thing discovered commences with the discovery itself, and is only perfected by the patent subjecting the future use of the machine constructed previous to a patent, to that price which the inventor demands from others for the use of it, his discovery will not appear to be one of those violent invasions of the sacred rights of property, which would justify a court in disregarding the plain meaning of words. . . .

> The inchoate property which vested by the discovery, is prolonged by the renewed patent, as well as by the original patent.

Evans v. Jordan, 8 F. Cas. 872, 873 (C.C.D. Va. 1813), aff'd, 13 U.S. 199 (1815). In other words, the property right is grounded in the work of the inventor, with the Patent Act serving only to make that right legally enforceable. *See also Gayler v. Wilder*, 51 U.S. 477, 493 (1850) (Taney, C.J.) ("[T]he discoverer of a new and useful improvement is vested by law with an inchoate right to its exclusive use, which he may perfect and make absolute by proceeding in the manner which the law requires.").

Perhaps the clearest example of patents being treated on par with other property is *McClurg v. Kingsland*, 42 U.S. 202 (1843). Addressing the effect of amendments to the Patent Act on the rights of those whose patents issued under the statute previously in force the *McClurg* Court held that the amendments "can have no effect to impair the right of property then existing in a patentee, or his assignee, according to the well-established principles of this court in 8 Wheat. 493." The reference to *Society for Propagation of Gospel in Foreign Parts v. Town of New Haven*, 21 U.S. (8 Wheat.) 464, 493 (1823) is particularly noteworthy because that case had nothing to do with patents, being a dispute about land ownership. The principle announced in *Society for Propagation of Gospel*—that of legislature's inability to derogate from vested land titles—was made equally applicable to patents, showing that the early courts drew no difference

between the status of patents and of more tangible property.[2]

B. The Power to Adjudicate Patent Rights Has Always Been Committed Exclusively to the Judicial Branch

None of this is to say that Congress was ever blind to the possibility that patents may issue in error and to those who have not earned and therefore are not deserving of them. On the contrary, being acutely aware of such a risk, beginning with the very first Patent Act, Congress provided for cancellation of patents issued in error and conferred the exclusive power to do so on federal judges. *See* Act of Apr. 10, 1790, ch. 7, § 5, 1 Stat. 109, 111. This system was

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[2] Much is often made of early judicial pronouncements that patents are "franchises," and therefore cannot stand on equal footing with other property rights. This is incorrect and betrays lack of historical understanding and failure of careful reading of the precedents. Suffice it to say that unlike patents, "public franchises" are judicially *disfavored*, *see Wright v. Nagle*, 101 U.S. 791, 796 (1879), and "public grants are . . . construed strictly in favor of the public [with the] ambiguities . . . resolved against the grantee." *Russell v. Sebastian*, 233 U.S. 195, 205 (1914) (citing, *inter alia*, *Charles River Bridge v. Warren Bridge*, 36 U.S. 420, 546 (1837); *Slidell v. Grandjean*, 111 U. S. 412, 437 (1884); *Detroit Citizens' Street R. Co. v. Detroit R. Co.*, 171 U. S. 48, 54 (1898)). In contrast, courts have long understood that

> Patents for inventions are not to be treated as mere monopolies odious in the eyes of the law, and therefore not to be favored; nor are they to be construed with the utmost rigor, as strictissimi juris. . . . Hence, it has always been the course of the American courts . . . to construe these patents fairly and liberally, and not to subject them to any over-nice and critical refinements.

Ames v. Howard, 1 F. Cas. 755, 756 (C.C.D. Mass. 1833) (Story, Circuit Justice).

preserved in the Patent Act of 1793. Act of Feb. 21, 1793, ch. 11, § 10, 1 Stat. 318, 323. The exclusivity of judicial cancellation is particularly noteworthy, because the under the 1793 Act there was no *ex ante* examination of patent validity. *See Stanley v. Hewitt*, 22 Fed. Cas. 1043, 1044 (1836) ("It is a well–known fact that patents are granted at the patent office, not after an examination into their merits, but upon ex parte statements.").

It is entirely unsurprising that in a system where a filing of a petition was all that was necessary to obtain a patent, "many of the patents [were] useless, except to give work to the lawyers, & others so useless in construction as to be . . . merely intended for sale." Letter from William Thornton, Superintendent, U.S. Patent Office, to Amos Eaton (May 5, 1809). In fact, inventors themselves conceded that a "great number of patents annually granted by the United States . . . would not be capable of sustaining a just claim for the exclusive privileges acquired; and [that] the public is really injured under such circumstances." John Redman Coxe, *Of Patents*, 1 Emporium Arts & Sci. 76, 76 (1812). Despite the frustration with the system, and its obvious shortcomings, this Court was adamant that a patent, once granted, was a property right like any other, and not subject to summary cancellation proceedings. Speaking for a unanimous Court, Justice Story wrote that

> It is not lightly to be presumed, therefore, that Congress, in a class of cases placed peculiarly within its patronage and protection, involving some of the dearest and most valuable rights which society acknowledges, and the constitution itself means to favour, would

> institute a new and summary process, which should finally adjudge upon those rights, without a trial by jury, without a right of appeal, and without any of those guards with which, in equity suits, it has fenced round the general administration of justice.

Ex Parte Wood & Brundage, 22 U.S. 603, 608 (1824).

Congress eventually abandoned the patent-registration system in favor of a system where applications would be examined by executive-branch officials and would be granted only upon showing that the claimed invention was novel and useful. *See* Patent Act of 1836, ch. 357, §7, 5 Stat. 117, 119. Nonetheless, even as the executive branch was vested with significantly more authority to decide whether or not to issue a patent, the courts continued to hold that the power to cancel an issued patent rested exclusively with the judicial branch. Instructing a jury in an 1862 case, Judge Sprague stated "[a] . . . valid patent . . . is just as sacred as any right of property, and no more so; and questions respecting it are to be tried in a court of justice in the same manner as all other rights which may have been infringed." *Hayden v. Suffolk Mfg. Co.*, 11 F. Cas. 900, 902 (C.C.D. Mass. 1862), aff'd *sub nom. Suffolk Co. v. Hayden*, 70 U.S. 315 (1865).

As was expected, the practice of examining patent application resulted in the Patent Office acquiring expertise both in the matters of patent law and various fields of technology. Notwithstanding this expertise, this Court, in *McCormick Harvesting*, held that the Patent Office cannot abrogate or otherwise detract from an issued patent. 169 U.S. at 608–09. At issue was the effect of Patent Office's rejection of a petition for a reissue patent. In order to obtain a reissue (the

purpose of which is to correct inadvertent mistakes that if left standing, would render the patent "wholly or partly inoperative or invalid"), the patentee had to convince the Patent Office that the sought reissue complied with the requirements for patentability. The question before the Court was whether a rejection for want of novelty of claims in a reissue application invalidated the claims in the original patent to the extent there was no material difference between the two sets of claims. The Court's decision leaves no doubt about respective powers and duties of each branch. Holding that the original patent is unaffected by any decision on a reissue application, the Court observed that

> It has been settled by repeated decisions of this court that when a patent has received the signature of the secretary of the interior, countersigned by the commissioner of patents, and has had affixed to it the seal of the patent office, it has passed beyond the control and jurisdiction of that office, and is not subject to be revoked or canceled by the president, or any other officer of the government. It has become the property of the patentee, and as such is entitled to the same legal protection as other property.
>
> The *only authority* competent to set a patent aside, or to annul it, or to correct it for any reason whatever, *is vested in the courts of the United States*, and not in the department which issued the patent.

McCormick, 169 U.S. at 608–09 (emphasis added; internal citations omitted).

For over 220 years, under various iterations of patent laws, and despite the perpetual critique of "low quality patents," *see generally* Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. Rev. 881, 886–95 (2015), two things remained constant: the treatment of patents as property rights and the commitment of dispute resolution over these rights to Article III courts. The AIA is flatly inconsistent with the historical understanding of patent rights and the "repeated decisions of this court." *McCormick*, 169 U.S. at 608.

C. Patent Rights Are "Private Rights" and Must Be Adjudicated in Federal Courts

It is undisputed that the Constitution permits Congress to assign resolution of certain matters to courts that do not enjoy the protections of Article III. *See, e.g., Atlas Roofing Co. v. Occupational Safety & Health Review Comm'n*, 430 U.S. 442, 455 (1977). At the same time, the universe of such cases is carefully circumscribed. *See Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 51–55 (1989). In separating issues amenable to adjudication in legislative tribunals from those that are within the exclusive province of Article III courts, this Court has drawn a distinction between "public rights" and "private rights." *Id.* The distinction is of paramount importance because "[u]nless a legal cause of action involves 'public rights,' Congress may not deprive parties litigating over such a right of the Seventh Amendment's guarantee to a jury trial."[3] *Id.*

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[3] Congress may assign the matters sounding in equity to "courts of equity sitting without juries," 492 U.S. at 53; however, "[C]ongress [may not] withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit . . . in equity." *Murray's Lessee v. Hoboken Land & Imp. Co.*, 59 U.S. 272, 284 (1855).

at 53. Conversely, if the right in question "is not a 'public right' for Article III purposes, then Congress may not assign its adjudication to a specialized non–Article III court lacking 'the essential attributes of the judicial power.'" *Id.* (quoting *Crowell v. Benson*, 285 U.S. 22, 51 (1932)). Although "the distinction between public rights and private rights has not been definitively explained in [this Court's] precedents," *N. Pipeline Const. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 69 (1982), there is little doubt that patent rights are quintessentially "private rights" and thus may not be assigned for adjudication to non-Article III courts.

"Public rights" generally fall into one of two categories. The first category are cases "arising between the government and others." *Ex parte Bakelite Corp.*, 279 U.S. 438, 451 (1929). Before the government may be sued, it must consent to waive its sovereign immunity. *See Murray's Lessee*, 59 U.S. at 273. Because the "United States . . . may yield this consent upon such terms and under such restrictions as it may think just," *id.*, the government may insist that suits against it proceed in non-Article III courts.

Next, where Congress has "created a new cause of action, and remedies therefor, unknown to the common law," the rights created by such statutory schemes may also be considered "public rights" amenable to resolution outside of Article III strictures. *See Atlas Roofing*, 430 U.S. at 461. On the other hand, Congress "lacks the power to strip parties contesting matters of private right," *Granfinanciera*, 492 U.S. at 51–52, including "[w]holly private tort, contract, and property cases," *Atlas Roofing*, 430 U.S. at 458, from their right to trial before an Article III court. "The Constitution nowhere grants Congress [the] puissant

authority . . . [to] conjure away the Seventh Amendment by mandating that traditional legal claims be brought there or taken to an administrative tribunal." 492 U.S. at 52.

Patent rights do not fit into either of the recognized "public rights" categories. Patent disputes arise between private parties rather than the government and a private party.[4] Actions before the Patent Trial and Appeal Board (PTAB), like actions in district courts, are disputes between private parties.[5] Nor are patents a creature of "federal regulatory statutes." *Atlas Roofing*, 430 U.S. at 460. That patent rights exist solely as a result of the Patent Act is not disputed, but neither is that fact particularly informative.

First, patents for inventions are not the only property rights that exist solely by virtue of Congressional grant. According to the National Park Service, private property in 10 percent of all the land in the United States, spread across 30 states, exists solely by virtue of the Homestead Act. Nat'l Park Svc., *Getting to Know the Homestead Act*,

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[4] When the federal government is accused of patent infringement, the patentee must bring suit in the Court of Federal Claims, an Article I tribunal. *See* Tucker Act, 28 U.S.C. § 1498. In light of the well-settled principles of sovereign immunity, *amici* have no quarrel with this rule. *See Murray's Lessee*, 59 U.S. at 273.

[5] This feature separates the AIA *inter partes* review from the previously existing patent reexamination. Under the previous regime, the dispute was always between the government and the patentee. The patentee was permitted to continue "negotiating" the scope of his patent with the government and to file amendments until such time that the Patent Office's objections were resolved. In contrast, the new *inter partes* review is an adjudicative and adversarial process, where the traditional features of patent examination are entirely absent and which was designed to provide an alternative to private litigation.

http://bit.ly/2w8dyz0. The land patents received under the Homestead Act, are nearly a mirror image of patents received under the Patent Act. While the Homestead Act was in effect, settlers found empty lots of land, worked the land for five years, and then filed an application for a patent from the federal government. *Id.* In other words, settlers found land that wasn't known to others before, made it into a new and useful farmland, and upon disclosure of their efforts received, pursuant to a statute, a document that allowed them to exclude all others from the land which the settlers made theirs. The process for obtaining a patent for invention is strikingly similar. An inventor discovers an idea not previously known to others, develops that idea into a new and useful invention, and upon the disclosure of that invention, receives pursuant to a statute, a document that allows him to exclude others from working his invention. This Court has previously recognized the equivalence between the two types of patents.

> A patent for an invention is as much property as a patent for land. The right rests on the same foundation, and is surrounded and protected by the same sanctions. There is a like larger domain held in ownership by the public. Neither an individual nor the public can trench upon or appropriate what belongs to the other.

Consol. Fruit-Jar Co. v. Wright, 94 U.S. 92, 96 (1876).

Second, although "[a] patent by its very nature is affected with a public interest," *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945), it does not make it a "public right." All private property rights are "affected with a public interest." Ownership of private property necessarily includes the

ability to bar others from that property (no matter how valuable the right of access may be). *See Kaiser Aetna v. United States*, 444 U.S. 164, 176–80 (1979). Covenants in deeds that restrict property holders from building multi–family dwellings necessarily affect public interest because they may limit the public's ability to build affordable housing in certain locales. *See* Andrea J. Boyack, *Limiting the Collective Right to Exclude*, 44 Fordham Urb. L.J. 451, 486 (2017). Defeasible interests in property affect public interest because they limit the uses to which a property can be put, even when such uses would offer significant benefits to the community. *See* Christopher Serkin, *Public Entrenchment Through Private Law: Binding Local Governments*, 78 U. Chi. L. Rev. 879, 902 (2011). None of these reasons, however, have ever been sufficient to conclude that property rights are anything but "private rights." The Court should adhere to its unbroken string of precedents treating patents for inventions *in pari materia* with land, *see ante* at pp. 4–5, and abjure creating a peculiarly unfavorable regime for "some of the dearest and most valuable rights which society acknowledges, and the constitution itself means to favour." *Ex Parte Wood*, 22 U. S. at 608.

Ultimately, the implications of the argument that merely because a right to particular property flows from a statutory scheme, such rights are "public rights" and that disputes over them can be withdrawn from Article III courts are staggering. Such a conclusion would mean that anyone who derives his land title from the Homestead Act can be forced to have any disputes over that property be resolved by a

bureaucrat in the Bureau of Land Management.[6] Under this view, Congress could require that a dispute between an individual and a private financial institution over a mortgage or a student loan be heard before an official in the Treasure Department on the theory that the relevant loans were made pursuant to a federal statutory scheme. The government enacts statutes affecting property rights all the time, but that does not convert the rights that trace their roots to such statutes into "public rights." As John Locke explained, we "enter into society with others for the securing and regulating of property," and consent for our property "to be regulated by the laws of the society." John Locke, Two Treatises of Government § 120 (1690). But the government and laws exist not to *create* property but so "that men might have *and secure* their properties." *Id.* § 139 (emphasis added). The Patent Act, much like the Homestead Act, does not *create* property rights in the invention or land, but merely allows individuals to perfect and secure these previously inchoate right.[7] *Evans v. Jordan*, 8 F. Cas. at 873.

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[6] The BLM is the successor agency to the General Land Office which was charged with administering the Homestead Act. *See* Reorganization Act of 1945, ch. 582, 59 Stat. 613.

[7] In *Matal v. Tam*, decided just last term, the Court held that "federal law does not create trademarks. Trademarks and their precursors have ancient origins, and trademarks were protected at common law and in equity at the time of the founding of our country." 137 S. Ct. 1744, 1751 (2017). Federal law merely secured these rights. That presently trademark protection is statutory did not convert otherwise private speech into public speech. *Id.* at 1760. Patents for inventions are no different. Patents (like trademarks) existed before 1787 (being granted by state and colonial governments), *see* Bruce Bugbee, Genesis of American Patent and Copyright Law 57–103 (1967), and the

If "public right" were come to mean "any right that is anchored in a statutory enactment," then no right to property or contract would be safe from being committed for constant reevaluation to administrative agencies. The exception to the general requirement of having disputes adjudicated in Article III courts would swallow the rule. The Constitution cannot tolerate such a result.

II. The PTAB Is Incompatible with the Fundamental Purpose of Article III

A. The PTAB Undermines Litigants' Rights to Have Cases Fairly Adjudicated

The fundamental purpose of Article III is "to safeguard litigants' 'right to have claims decided before judges who are free from potential domination by other branches of government.'" *Commodity Futures Trading Comm'n v. Schor*, 478 U.S. 833, 848 (1986) (quoting *United States v. Will*, 449 U.S. 200, 218 (1980)). The PTAB both in design and in practice fails this basic requirement.

The Administrative Patent Judges (APJ) lack the independence of Article III judges, or even administrative law judges.[8] Instead, they (and their

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Constitution itself contemplates that Congress will be acting to *secure*, rather that *create* inventors' rights. *See* Art. I, § 8, cl. 8.

[8] ALJs act independently of the agency and can be removed or otherwise sanctioned only "or good cause established and determined by the Merit Systems Protection Board on the record after opportunity for hearing before the Board." 5 U.S.C. § 7521(a); *see* Kent Barnett, *Against Administrative Judges*, 49 U.C. Davis L. Rev. 1643, 1654–56 (2016). In contrast, APJs are fully under the control of the PTO director and serve at his pleasure. *See* Jonathan S. Masur, *Patent Inflation*, 121 Yale L. J. 470, 496 n.106 (2011) (citing 35 U.S.C. § 6(a)).

decisions) are wholly dependent on the predilections of the director of the Patent and Trademark Office (PTO). Masur, *supra*, at 496 n.106. Indeed, the ultimate determination on any issue litigated before the PTAB *de facto* rests with the director. *Id.* As the Federal Circuit noted in *In re Allapat*, although the director cannot personally change a determination of a PTAB panel, he "may convene a Board panel which he knows or hopes will render the decision he desires, even upon rehearing." 33 F.3d 1526, 1535 (Fed. Cir. 1994)), overruled on other grounds by *Bilski v. Kappos*, 561 U.S. 593 (2010).

The director of the PTO is, of course a political appointee subject to Senate confirmation and serving at the pleasure of the president. The operation of the PTAB and the security of patent rights therefore depends not on stable and neutral adjudication as is the case in Article III courts, but on the prevailing political winds. That this is so is illustrated by the public debates surrounding the leadership of the PTO following the most recent presidential election.

After President Trump's inauguration, a number of individuals and groups urged him to replace Director Michelle K. Lee with someone of his own choosing. *See, e.g.*, James Edwards, *The Bottom Line on Trump's PTO: Michelle Lee Must Go*, IPWatchdog.com, Jan. 24, 2017, http://bit.ly/2w8vNEA. The president was lobbied to appoint someone with radically different attitude toward IPRs than that espoused by former Director Lee. *See, e.g.*, Gene Quinn, *President Trump Must Pick a PTO Director Who Believes Patents are Private Property Rights*, IPWatchdog.com (June 28, 2017), http://bit.ly/2w7SKI5. At the same time, former director Lee (or at least her policies) have their

defenders in both the government and private sector. *See, e.g.*, Letter to the President from Adobe Systems, *et al.*, (Apr. 25, 2017), http://bit.ly/2w8cGKX; Ashley Gold, *et al.*, *Lee Staying on as Patent Chief under Trump Administration*, Politico, Jan. 19, 2017, http://politi.co/2w8xGRT. This ongoing debate is ultimately not about any personalities or competency to do the job of the PTO director. The debate is about the workings of the PTAB.

It is certainly true that each incoming administration seeks to harmonize the administrative state with its own political and policy goals. The PTO is no different. What is different is that in no other agency does such harmonization affect vested property rights. Changes in other agencies happen as part of regular rulemaking process, subject to the Administrative Procedure Act, apply globally to all those regulated by the relevant agencies, and perhaps most importantly do not change the scope of private property rights. The changes in the leadership of the PTO, on the other hand, can affect private property rights in patents, can occur without any rule–making, and can apply just to a selection of favored (or disfavored) patents.

Neither the AIA nor PTO rules limit the number of times a patent can be subjected to *inter partes* review. 35 U.S.C. § 315(e) (limited estoppel provision); *see also Cepheid v. Roche Molecular Sys., Inc.*, IPR2015–00881, Paper No. 9, at 2, 5–8 (P.T.A.B. Sept. 17, 2015) (instituting *inter partes* review after previous request by the same challenger was denied). Since the creation of this process, patents have been routinely reviewed on multiple occasions, see Dolin, *supra*, at 928, with some having *more than 125* separate petitions filed

against them. Perdarm Semeni, *Patexia Chart 31: Can Patents Survive Multiple IPR Challenges? (Case Study)*, http://bit.ly/2iGkosG. Because a decision of one PTAB panel does not bind another one, surviving one review provides no armor against subsequent challenges. PTAB, *Standard Operating Procedure* 2 (Rev. 9), § VI.A (2014) ("Every Board opinion is, by default, a routine opinion until it is designated as precedential or informative. . . . A routine opinion is not binding authority.").

Thus, a PTO director (or for that matter a president) intent on invalidating a *particular* patent can continue ordering more and more *inter partes* reviews until the desired outcome is achieved. Hence, a patent that may have survived review (and litigation) during one presidential administration could be re-evaluated and invalidated as soon as a new president is inaugurated and his choice for the PTO director is confirmed. Such a process can take place not because of any change in the substantive law, but merely because the political powers wish to abrogate a particular patent.[9] "Article III, § 1, 'was designed as a protection for the parties from the risk of legislative or executive pressure on judicial decision.'" *Schor*, 478 U.S. at 848 (quoting David P. Currie, *Bankruptcy Judges and the Independent Judiciary*, 16 Creighton

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[9] The reverse scenario, where a previously invalidated patent is revived is harder, but not impossible, to craft simply because once a patent is invalidated, it remains invalid for all times. *See Blonder-Tongue Labs., Inc. v. Univ. of Illinois Found.*, 402 U.S. 313, 347–50 (1971). However, if time for a rehearing has not expired, then a newly appointed PTO director could convene a PTAB panel that would reach a more favorable decision.

L. Rev. 441, 460 n.108 (1983)). The PTAB, on the other hand is designed to *expose* parties to just such a risk.

The "executive pressure on judicial decision" is not merely a risk that "must be discerned by a careful and perceptive analysis." *Morrison v. Olson*, 487 U.S. 654, 699 (1988) (Scalia, J., dissenting). Instead, the experience and the actual practice before the PTAB over the last six years shows that "this wolf comes as a wolf." *Id.* For example, in *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co.*, a three-judge panel rejected a motion to add a new petition raising new grounds of invalidity to an already pending *inter partes* review. IPR2015–00762, Paper No. 12 (P.T.A.B. July 20, 2015). Unsatisfied with that result, the director granted a rehearing, added two additional judges to the panel, and turned a previous 2-1 decision in favor of the patentee into a 3-2 decision in favor of the challenger. *Id.*, Paper No. 16 (Oct. 16, 2015). The expanded panel then proceeded to find all of the challenged claims to be invalid. An even more egregious case is *Target Corp. v. Destination Maternity Corp.* There, an already expanded (five-member) PTAB panel declined to institute *inter partes* review, or to join the petition to an existing case brought by the same party. IPR2014–00508, Paper Nos. 18, 20 (P.T.A.B. Sept. 20, 2014). The director was once again unsatisfied with the decision and once again added two additional members to the panel to turn a 3-2 pro–patentee decision into a 4-3 pro-challenger decision. *Id.*, Paper Nos. 31, 32 (Feb. 12, 2015).[10]

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[10] The PTO's expanded-panel practice is quite unlike the circuit courts' *en banc* practice. When a circuit court orders that a case be reheard *en banc*, all of the court's judges hear the appeal. Even in the Ninth Circuit, where the *en banc* process involves merely

A process where a presidential political appointee can select adjudicators in such a way as to ensure a preordained outcome is the antithesis of a process where "claims [are] decided before judges who are free from potential domination by" political actors. *Schor*, 478 U.S. at 848. The very "purpose of Article III is to insure fairness to all litigants." *In re Earle Industries, Inc.*, 71 B.R. 919, 923 (Bankr. E.D. Pa. 1987). This purpose is undermined by the system which allows private property rights and the litigation position of the parties to be wholly dependent on the predilections of executive branch officials.

B. The PTAB Undermines the Role of the Courts in Our Tripartite System of Government

Article III protects not just litigants, but "the role of the independent judiciary within the constitutional scheme of tripartite government." *Schor*, 478 U.S. at 848 (quoting *Thomas v. Union Carbide Agr. Prod. Co.*, 473 U.S. 568, 583 (1985)). It "serves a structural purpose, 'barring congressional attempts to transfer jurisdiction [to non-Article III tribunals] for the purpose of emasculating' constitutional courts and thereby prevent[ing] 'the encroachment or aggrandizement of one branch at the expense of the other.'" *Wellness Int'l Network, Ltd. v. Sharif*, 135 S.Ct.

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an "expanded panel" rather than all of the court's judges, the judges are selected at random, precisely to assure fairness to the litigants. *See* Ninth Circuit Rule 35–3. In contrast, the PTO's own Standard Operating Procedures confirm the director's unfettered authority to decide when to seat an expanded panel, how many APJs to allocate to such a panel, and which specific individuals to assign to hear the case. *See* PTAB, Standard Operating Procedure 1 (Rev. 14) (2015). The process seems designed to let the PTO reach whatever decision it wishes, not one commanded by law.

1932, 1944 (2015) (quoting *Schor*, 478 U.S. at 850) (alterations in original). The PTAB, however, was *explicitly designed* to diminish the power of federal courts and aggrandize the executive branch.

The Judiciary Committee report that accompanied the America Invents Act did not hide the fact that the PTAB proceedings were designed to "serve as an effective and efficient *alternative* to often costly and protracted district court litigation." H.R. Rep. No. 112–98, at 45 (emphasis added); *see also* Sarah Tran, *Patent Powers*, 25 Harv. J.L. & Tech. 609, 632 (2012) ("An interesting feature of USPTO's new post-grant reviews, as well as other proceedings, is that they function as an alternative, not an outright replacement, to litigation in court."). During the debate on the bill, Senator Kyl stated that "[t]here really is no sense in allowing expensive litigation over patents that are no longer valid" given the evolution of the law.[11] 157 Cong. Rec. S7413 (Nov. 14, 2011).

The AIA's provisions governing IPRs confirm that the Act is an "attempt[] to transfer jurisdiction [to non-Article III tribunals] for the purpose of emasculating' constitutional courts." *Wellness Int'l*, 135 S.Ct. at 1944 (alterations in original). The AIA permits an accused infringer to both avoid district court adjudication of a pending suit (provided that he files a petition within one year of being sued), and to vitiate a prior final judgment of a patent's validity, even if rendered by this Court. Under the AIA, such judicial

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[11] Although Sen. Kyl's statements focused on Covered Business Method Review provision of the AIA, 157 Cong. Rec. S7413, that provision is closely related to *inter partes* review provision and suffers from the same constitutional infirmity. *Compare* 35 U.S.C. §§ 311–319, *with* AIA, § 18(d)(1), 125 Stat. 284, 331.

determinations have no preclusive effect on the PTO or the adjudged infringer.[12] The *inter partes* review process makes final judgments of federal courts always subject to revision and modification by the executive branch. However, "[s]uch revision and control [of judicial decisions is] radically inconsistent with the independence of that judicial power which is vested in the courts." *Case of Hayburn*, 2 U.S. 408, 410 (1792). In essence, the *inter partes* process reduces judicial determinations of patent validity to little more than advisory, non–final opinions. It "emasculat[es] constitutional courts" by making their "judgment[s] . . . inoperative and nugatory, leaving the aggrieved party without a remedy." *Gordon v. United States*, 69 U.S. 561, 561 (1864). Judicial determination of patent validity is now too often "merely an opinion, which . . . remain[s] a dead letter, and without any operation upon the rights of the parties, unless" reaffirmed by the PTAB during an *inter partes* review. *Id.*

The AIA's stay provisions applicable to *inter partes* review lend further support to the proposition that the purpose of post–grant proceedings was to "emasculat[e] constitutional courts" while "aggrandiz[ing the executive] branch at the expense of the" judiciary. For example, section 315(a) provides for an *automatic* stay of a district court action challenging the validity of a patent, thus depriving the federal courts of ability to adjudicate declaratory judgment actions when the same patent claims are concurrently challenged before the PTO. And although the AIA does

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[12] While an accused infringer cannot initiate *inter partes* review more than a year after being sued, should another challenger file a petition, he may seek to join its otherwise untimely petition to the newly filed one. 35 U.S.C. § 315(c).

not require an automatic stay of co-pending patent infringement suits (unlike the required automatic stay of declaratory judgment actions), the district courts have heard the congressional call for shifting patent disputes to the administrative agency loud and clear. Studies show that once the PTAB decides to institute an *inter partes* review, district courts stay their proceedings over 70 percent of the time. *See* Morgan Lewis, 2017 PTAB Digest: The Latest Trends and Developments in Post-Grant Proceedings at 26 (2017). In fact, more often than not, courts stay litigation on the *mere filing* of an *inter partes* review petition. *Id.* The PTAB's "final written decisions invalidating [patent] claims [have] come to replace summary judgment and post-trial decisions" rendered by Article III courts. Craig E. Countryman, *2015 Patent Decisions of the Federal Circuit*, 65 Am. U. L. Rev. 769, 833 (2016). The end result is that federal courts have been essentially deprived of their responsibility for adjudicating patent cases and determining the scope of these property rights, while the role of the executive branch has been correspondingly enlarged. Courts have never approved such an arrangement. *Cf. Pacemaker Diagnostic Clinic of America, Inc. v. Instromedix, Inc.*, 725 F.2d 537, 544–46 (9th Cir.) (*en banc*) (Kennedy, J.) (approving the use of magistrate judges to conduct civil trials, including patent cases, only because "Article III courts control the magistrate system as a whole.").

III. The PTAB's Powers Are Too Broad and the Judicial Review Too Circumscribed to Survive Under this Court's Precedents

It is well settled that "that Congress is not barred from acting pursuant to its powers under Article I to

vest decisionmaking authority in tribunals that lack the attributes of Article III courts." *Thomas*, 473 U.S. at 583. At the same time, delegation of adjudicative functions to Article I tribunals is subject to strict limits and the availability of meaningful review in Article III courts. The procedures before the PTAB satisfy neither of these requirements.

A. The PTAB Exercises Powers Beyond Anything Previously Endorsed by this Court

This Court has, in certain contexts, permitted Congress to assign certain adjudicative functions to administrative agencies or other decision–makers who do not enjoy constitutional protections bestowed upon federal judges. However, the survival of such schemes has always depended on a) the type of right being at issue, and b) the scope of administrative adjudication.

Thus, in *Thomas*, this Court approved administrative agency adjudication of a right to data exclusivity with regard to certain pesticide products. While data exclusivity is in a sense a "property right," in *Thomas* it was part and parcel of a complex regulatory scheme. The key to the *Thomas* decision is the understanding that there is no right to sell pesticides absent regulatory approval for the same. It is unremarkable that the right to sell pesticides was simply conditioned on having disputes about data-sharing resolved by the very agency that was charged with administering the overall regulatory scheme.

Similarly, in *Atlas Roofing*, the Court permitted an agency to adjudicate the violation of its own regulations and to determine whether those regulations were violated. Again though, the agency

was able to assert its powers solely because there was (and is) no underlying right to engage in a particular type of business activity without any governmental regulation. Voluntarily engaging in a particular type of regulated activity was what brought the petitioner in *Atlas Roofing* within the jurisdiction of the Occupational Safety and Health Administration. Much the same can be said for *Crowell*, where this Court permitted an administrative agency to adjudicate a workmen's compensation scheme including adjudicating the amounts due from an employer operating "upon the navigable waters of the United States." 285 U.S. at 22. Once again, because operating a business within the waters of the United States is not a right, it is subject to the regulations and restrictions that the government may prescribe for the operation of such an enterprise—including the condition that certain disputes be resolved by a regulatory agency.

In short, all of these cases stand for the unremarkable proposition that when regulation of an activity is permissible, it may come along with both rule promulgation power and the rule enforcement power. *See Block v. Hirsh*, 256 U.S. 135, 158 (1921) ("If the power of [an agency] established by the statute to regulate the [economic activity] is established ... this objection [to agency adjudication] amounts to little. To regulate the [economic activity] and to decide the facts affecting it are hardly separable.").

The Court has also permitted administrative agencies to adjudicate matters that would not themselves be entwined with a regulated activity. However, such an extension of jurisdiction was always limited to claims arising out of the same nucleus of

operative facts, and required either express or implied consent of all of the parties to the proceedings. In *Schor*, this Court upheld, against an Article III challenge, the ability of the Commodity Futures Trading Commission to adjudicate state-law counterclaims, even though such matters are traditionally reserved to the federal courts. The Court noted that the petitioner waived his rights to have the counterclaims adjudicated in an Article III court because he "elect[ed] to forgo his right to proceed in state or federal court on his claim [rendering] his decision to seek relief instead in a CFTC . . . an effective waiver." 478 U.S. at 849.[13] It was of paramount importance to the resolution of the case that *either* party could choose a forum to adjudicate its claims, meaning that *both* parties had to consent to agency's jurisdiction on their respective claims.

Recognizing that while parties can waive their own right to proceed before an Article III court, they cannot waive the structural limits imposed by the constitutionally required separation of powers, the Court nevertheless found agency adjudication of the state-law counterclaims permissible. The Court rested its decision on the premise that the counterclaims arose out of the same transactions that were subject to the initial CFTC complaint. But the Court never approved an administrative tribunal adjudicating private rights unconnected to any process of adjudicating public rights within the sphere of agency's regulatory purview. *See Stern v. Marshall*, 564 U.S. 462 (2011) (rejecting as unconstitutional the

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[13] Petitioner's actions in *Schor* were also found to constitute an *explicit* waiver of his right to proceed before an Article III tribunal. 478 U.S. at 849.

bankruptcy court's power to try state common law cases which "do[] not flow from a federal statutory scheme," nor are "'completely dependent upon'" adjudication of a claim created by federal law.") (quoting *Schor*, 478 U.S. at 856).

Inter partes reviews before the PTAB do not possess the features that the Court has previously found necessary to sustain the substitution of agency–based adjudication for that of an Article III court. Unlike the economic activities at issue in *Thomas*, *Atlas Roofing*, and *Crowell*, all of which were subject to such regulations and conditions as Congress deemed appropriate, a patent is merely a right to exclude. Possession of a patent does not imbue the owner with the right to manufacture or market the patented goods. Merely holding a patent does not mean that the owner is engaged in any sort of regulated activity the exact scope of which could be regulated by a federal agency. *Cf. Nat'l Fed'n of Indep. Bus. v. Sebelius*, 567 U.S. 519, 552 (2012). Under this Court's precedents, it would be permissible to repose adjudicatory authority over the actual patented goods travelling in a stream of commerce in an agency charged with regulating those goods. Thus, for example, it would be permissible for Congress to grant the Food and Drug Administration an authority to adjudicate disputes about the products it regulates and the processes it uses to regulate them. On the other hand, this Court has never approved granting an administrative agency judicial power over property that is not, in and of itself subject to regulation. There is no argument that patents, once granted, are themselves part of any regulatory scheme. Quite the contrary, "upon the issue of [a] patent, the patent office . . . los[es] jurisdiction over it." *McCormick*, 169 U.S. at 612.

Nor does *inter partes* review comport with the requirement of consensual invocation of agency's adjudicative mechanism. There is no question that a patentee and an accused infringer can, by consent, resolve their dispute in any way they see fit; from litigation before a magistrate judge, to arbitration, to a coin toss.[14] Had the AIA merely provided consenting patentees and accused infringers an *opportunity* to resolve their dispute before a panel of expert patent judges, there would be little to complain about. *See Pacemaker Diagnostic*, 725 F.2d at 541–43 (holding that a voluntary waiver is required for patent issues to be adjudicated by a non-Article III court). The *inter partes* review, however, does not require patentees' consent. Instead, it allows any member of the public to, at any time, hale a patentee before the PTAB and force him to defend his vested property rights. Finally, patent rights, while a creation of federal law, are not merely regulatory rights that "flow from a federal statutory scheme." Rather, they are property rights the acquisition of which is governed by a federal statute. The same is often true of other traditional property rights. Acquisition of land or chattels from the federal government is often governed by statute or regulation, but that does not transform traditional property rights over the acquired land or chattels into the type of regulatory rights that are amenable to administrative adjudication.

B. Judicial Review of PTAB Decisions Is Too Narrow to Satisfy Article III

An indispensable feature of statutes that have been found to comport with Article III despite assigning

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[14] Given the reputation of the PTAB as a "patent death squad," patentees may well prefer a coin toss.

some adjudicatory functions to administrative agencies is the availability of robust judicial review. When this Court upheld the Occupational Safety and Health Act of 1970, it noted that while the administrative agency was given the power to determine facts and assess penalties for any violations of the law, a dissatisfied party (whether a penalized business or the government) could seek review in federal courts. Furthermore, any fines imposed by an agency were not self-executing, but could only be enforced pursuant to court order. The Act would not have survived review absent these judicial restraints on agency's power.

In contrast, the PTAB's power is not subject to meaningful judicial review. As an initial matter, the decision whether to institute *inter partes* review is not subject to judicial review, 35 U.S.C. § 314(d); *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2136 (2016), even though this seemingly preliminary decision is often just as or more important than the final one. From the perspective of the patent challenger, erroneous failure to institute review ends the case entirely and leaves no recourse against a potentially unlawful agency action. From the perspective of the patentee, an erroneous decision to institute review may spell financial doom for his enterprise even if the patents are ultimately vindicated.[15] *See* Gregory Dolin & Irina D. Manta, *Taking Patents*, 73 Wash. & Lee L. Rev. 719, 758 (2016); Alden Abbott, et al., *Crippling the Innovation Economy: Regulatory Overreach at the*

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[15] An erroneous institution may also require a patentee to defend his patent against challenges that should not be before the PTAB because they are untimely or otherwise barred.

Patent Office, Regulatory Transparency Project of the Federalist Society, Aug. 14, 2017, http://bit.ly/2x1b9cb.

Next, once the PTAB issues its final written decision, a losing party may not have a benefit of an appeal. While a patentee may always appeal adverse PTAB decision, a losing challenger may do so only if he possesses Article III standing. *See, e.g., Phigenix, Inc. v. Immunogen, Inc.*, 845 F.3d 1168 (Fed. Cir. 2017). Since the AIA does not require a challenger to have Article III standing in order to pursue an *inter partes* review, a losing challenger may have no recourse against an unlawful agency decision. Furthermore, although a PTAB panel is not bound by a previous panel's decision, once one panel declines to find a patent invalid on particular evidence, another panel may decline to revisit the question even if brought by a different party with Article III standing. In other words, if a PTAB panel were to erroneously uphold a patent following a challenge by a party with no Article III standing, federal courts may never get a chance to review that decision even if another challenge were brought later on by a party with standing.

Finally, the judicial review is further truncated in this context because the court of appeals is required to defer to the PTAB's standard for claim construction. The PTAB uses a different claim construction standard than the one utilized in federal courts, reading each claim as broadly as possible, ignoring any disclaimers that the patentee may have made during patent prosecution or prior litigation. The broad claim construction (which often flies in the face of the actual meaning of the patent as established in prosecution and litigation) leads to higher likelihood of a patent being found invalid. The Federal Circuit, though it

reviews the PTAB's claim construction *de novo*, does not disturb the rather dubious principles on which such construction rests. *See generally Cuozzo*, 136 S. Ct. at 2142–46. These constraints on judicial review of the most important issue underlying the ultimate conclusion of patent's validity emasculate the federal courts and ultimately fail to comport with the requirements of Article III. It may well be that the PTAB may be an efficient and cheap alternative to litigation, but ultimately, "[t]he fact that a given law or procedure is efficient, convenient, and useful in facilitating functions of government, standing alone, will not save it if it is contrary to the Constitution." *Granfinaciera*, 492 U.S. at 63 (quoting *Bowsher v. Synar*, 478 U.S. 714, 736 (1986)).

CONCLUSION

The Court should see the *inter partes* review provision of the America Invents Act for what it is: a congressional attempt to simultaneously treat patents not as property, but merely as governmental largesse, and to aggrandize the role of the political branches at the expense of federal courts. But the proper forum to litigate federal property rights is in the federal courts. The decision below must be reversed.

Respectfully submitted,

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